Corp report

COMBINED
ENGINEERED
PRODUCTS
LIMITED

TWENTY-EIGHTH
ANNUAL
REPORT
1972

COMPRO

TWENTY-EIGHTH ANNUAL REPORT 1972 **COMBINED ENGINEERED PRODUCTS LIMITED**

2242 Lakeshore Blvd. West
Toronto 500, Ontario
Canada

BOARD OF DIRECTORS

*M. O. SIMPSON, JR.	*Phoenix, Arizona, Chairman of the Board and Executive Committee*
*D. S. BEATTY	*Toronto*
J. P. CARRIÈRE	*Montreal*
*P. S. NEWELL	*Toronto*
M. O. SIMPSON	*Tucson, Arizona*
D. L. TORREY	*Montreal*
*H. M. TURNER	*Toronto*

**Members of Executive Committee*

OFFICERS

M. O. SIMPSON, JR.	*President*
B. T. H. KNILL	*Vice President & Secretary-Treasurer*
P. H. SLAUGHTER	*Vice President—Canadian Operations*
R. A. DAVIS	*Vice President*
S. P. LOCKHART	*Vice President*

TRANSFER AGENTS AND REGISTRARS

MONTREAL TRUST COMPANY
Edmonton, Halifax, Montreal, Toronto, Vancouver and Winnipeg

REGISTRAR AND TRANSFER COMPANY
15 Exchange Place, Jersey City 2, N.J.

AUDITORS

PARENT COMPANY AND THE CANADIAN SUBSIDIARY COMPANIES
McDonald, Currie & Co.

SOUTHEASTERN-WESTBROOK ELEVATOR
Lybrand, Ross Bros. & Montgomery
(associated firm of McDonald, Currie & Co.)

COMPRO-FRINK CORPORATION
FRINK SNO-PLOWS
MONSOON COMPANY
Leon W. Robb

THE DIRECTORS' REPORT

To the Shareholders of

COMBINED ENGINEERED PRODUCTS LIMITED

Consolidated sales for the year increased by $1,747,249 to $23,233,379. Net earnings for the year before unrealized exchange loss and extraordinary credit increased by $102,146 to $543,385 which, after deducting the $110,000 dividends paid to preferred shareholders, represents 71¢ per common share compared to 54¢ a year ago. Working capital increased during the year by $595,182 and is $4,320,418 at August 31, 1972. The Company spent $353,596 on additions to machinery and equipment. Common shareholders' equity at August 31, 1972 was $2,879,780, equal to $4.70 per share.

The earnings for the year have been charged with the moving costs related to the transfer of the Westbrook Elevator manufacturing facilities in Danville, Virginia to the Southeastern Elevator plant in Atlanta, Georgia, and the costs relating to the closedown and transfer of the Toronto plant of Lawron Industries to Farnham, P.Q. These costs amounted to $92,230. As advised in Interim Reports to Shareholders issued during the year a further unrealized exchange loss would be charged to earnings this year in order to write down the book value of the investment in the U.S. subsidiary. This amounted to $46,111.

The net earnings for the year of 75¢ per common share include an extraordinary credit of $71,306 representing the profit on the sale of land.

Note 8 to the financial statements indicates that before the common shares become eligible for dividend consideration $920,000 of cumulative future earnings, less cumulative dividends paid to the preferred shareholders, must be achieved.

The sales of Frink products in Canada and the U.S., which were the highest in the

Company's history, and the increase in sales of the Southeastern-Westbrook Elevator Division were the major contributors to improved consolidated earnings.

The capital goods market, which provides the demand for the products of Hamilton Gear and Machine and Eastern Steel Products, remained depressed during the year making it difficult for these divisions to generate production efficiencies and /or increased selling prices sufficient to absorb higher labour and material costs.

The roll covering business of Lawron Industries continued at a slow pace in 1972 in line with the general economic conditions existing within the pulp and paper industry. There are indications that there will be some improvement in this market in 1973. The clothing division of this operation shows steady progress. During the year Mon-Soon Co. was established in Richford, Vermont permitting this division to manufacture and market the clothing products in the U.S.

Fort Garry Industries enjoyed a year of continued growth in providing service and parts to the heavy trucking industry in western Canada. This company expanded its activities in steel fabricating and rubber to metal bonding. Improved sales and earnings of this division are expected to continue into 1973.

It will be of interest to shareholders that approximately 60% of the company's sales occurred in Canada and this accounted for approximately 54% of the operating profits before interest charges.

Each of the Company's operations continue to expand their existing product lines through the development and design of new products. Hamilton Gear and Machine has entered into a contract with the Machinery Branch of the Federal Department of Industry, Trade and Commerce under their PAIT Programme to build a prototype machine for the cutting of very large gears. The gross amount of this contract is approximately $950,000, and it is estimated that the 1973 earnings will be charged with approximately $350,000, being the total cost of this project to the Company. It is anticipated that the successful completion of this project will contribute to improved earnings in future years.

Subsequent to the fiscal year end a new manufacturing facility, Oracle Corporation, in Alpena, Michigan was formed in order to manufacture and market additional snow and ice control products.

The Company's major divisions enter the current fiscal year with backlogs at satisfactory levels and the outlook for 1973 is good at the present time. However, it should be noted that five of the Company's operations will be negotiating for the renewal of union contracts. Assuming there are no major work interruptions, it is expected the earnings for 1973 will compare favourably with those of this year after absorbing all research and development costs.

During the year Mr. P. H. Slaughter was appointed Vice President in charge of the Company's Canadian operations. Recently Mr. R. A. Davis, President of Southeastern-Westbrook Elevator Division, and Mr. S. P. Lockhart, President of Frink Sno-Plows Division, were appointed Vice Presidents of the Company.

For the additional information of shareholders, this Annual Report includes a brief description of each of the Company's operations and outlines the products manufactured.

The Company now employs over 1,000 people and the Directors wish to extend their appreciation to the officers and employees for their efforts in achieving the improved earnings in the past year.

On behalf of the Board of Directors,

Chairman

Toronto
November 1, 1972

CONSOLIDATED BALANCE SHEET AS AT AUGUST 31, 1972

	Cost	Accumulated Depreciation	1972	1971
ASSETS			$	$
CURRENT ASSETS				
Cash			**533,184**	266,801
Accounts receivable—trade			**3,122,913**	2,988,547
Accounts receivable—other (Note 3)			**40,673**	40,673
Inventories—at the lower of cost or net realizable value (Note 4)			**4,445,695**	4,710,331
Prepaid expenses			**217,174**	182,731
			8,359,639	8,189,083
FIXED ASSETS	$	$		
Land	173,312	—	**173,312**	174,941
Buildings	1,983,319	958,219	**1,025,100**	1,071,415
Machinery and Equipment	5,641,225	4,593,486	**1,047,739**	1,231,221
	7,797,856	5,551,705	**2,246,151**	2,477,577
Land held for sale—at cost less proceeds of portion sold			—	117,862
			2,246,151	2,595,439
OTHER ASSETS				
Excess cost of investment in businesses over book value of net assets at dates of acquisition			**21,755**	21,918
Mortgages receivable			**17,500**	19,500
Prepaid pension expense			—	12,196
Deposits			—	10,490
			39,255	64,104
			10,645,045	10,848,626

	1972	1971
LIABILITIES	$	$
CURRENT LIABILITIES		
Bank Loans (Note 5)	**820,000**	1,318,800
Accounts payable and accrued liabilities	**2,624,597**	2,483,763
Income and other taxes payable	**212,612**	305,563
Portion of long term liabilities due within one year	**382,012**	355,721
	4,039,221	4,463,847
LONG TERM LIABILITIES (Note 6)	**1,569,044**	1,836,579
DEFERRED INCOME TAXES	**157,000**	127,000
SHAREHOLDERS' EQUITY		
CAPITAL STOCK		
Authorized—		
200,000 Preferred Shares of the par value of $20 each, issuable in series		
1,200,000 Common Shares without nominal or par value (Note 7)		
Issued and fully paid—		
100,000 $1.10 Cumulative, Convertible Preferred Shares, Series A, redeemable at $21.50	**2,000,000**	2,000,000
612,300 Common Shares (Note 8)	**157,250**	157,250
RETAINED EARNINGS	**2,722,530**	2,263,950
	4,879,780	4,421,200
	10,645,045	10,848,626

Signed on behalf of the Board:

M. O. SIMPSON, JR., *Director*

H. M. TURNER, *Director*

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED AUGUST 31, 1972

	1972	1971
	$	$
SALES (Note 2)	**23,233,379**	21,486,130
COSTS		
Cost of products sold	**18,119,573**	16,748,368
Advertising	**134,591**	141,164
Selling expenses	**1,212,159**	1,064,850
Research and product development	**95,752**	86,943
Administrative and general expenses	**1,432,257**	1,412,445
Depreciation and amortization	**517,189**	565,181
Interest on bank loans	**73,314**	126,542
Interest on long term liabilities	**148,499**	124,118
Remuneration of directors and senior officers	**274,430**	262,280
Plant moving and close-down expenses	**92,230**	—
	22,099,994	20,531,891
EARNINGS BEFORE INCOME TAXES, UNREALIZED EXCHANGE LOSS AND EXTRAORDINARY CREDIT	**1,133,385**	954,239
INCOME TAXES		
Current	**560,000**	468,000
Deferred	**30,000**	45,000
	590,000	513,000
NET EARNINGS FOR THE YEAR BEFORE UNREALIZED EXCHANGE LOSS AND EXTRAORDINARY CREDIT	**543,385**	441,239
Per Common Share (after dividends on Preferred Shares)	**71¢**	54¢
Unrealized exchange loss (Note 1)	**46,111**	—
NET EARNINGS FOR THE YEAR BEFORE EXTRAORDINARY CREDIT	**497,274**	441,239
Per Common Share (after dividends on Preferred Shares)	**63¢**	54¢
EXTRAORDINARY CREDIT		
Profit on sale of land	**71,306**	—
NET EARNINGS FOR THE YEAR	**568,580**	441,239
Per Common Share (after dividends on Preferred Shares)	**75¢**	54¢

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED AUGUST 31, 1972

	1972	1971
	$	$
RETAINED EARNINGS—beginning of year	**2,263,950**	1,932,711
NET EARNINGS FOR THE YEAR	**568,580**	441,239
DIVIDENDS—Preferred Shares	**110,000**	110,000
	458,580	331,239
RETAINED EARNINGS—end of year	**2,722,530**	2,263,950

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Combined Engineered Products Limited and wholly owned subsidiary companies as at August 31, 1972 and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination of the financial statements of the parent company and those of its subsidiary companies of which we are auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditor who has examined the financial statements of the other subsidiary company.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at August 31, 1972 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

McDONALD, CURRIE & CO.
Chartered Accountants

Toronto, October 30, 1972

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

FOR THE YEAR ENDED AUGUST 31, 1972

	1972	1971
SOURCE	$	$
Operations—		
Net earnings for the year	**568,580**	441,239
Less: Profit on sale of land	**71,306**	—
	497,274	441,239
Add: Charges not requiring an outlay of funds		
Depreciation and amortization	**517,189**	565,181
Deferred income taxes	**30,000**	45,000
	1,044,463	1,051,420
Proceeds of disposals of fixed assets including land	**257,164**	92,327
Reduction in mortgages receivable	**2,000**	2,000
Reduction in prepaid pension expense	**12,196**	14,032
Decrease in deposits	**10,490**	2,058
Increase in term bank loan	**—**	650,000
	1,326,313	1,811,837
USE		
Dividends paid to preferred shareholders	**110,000**	110,000
Additions to fixed assets	**353,596**	485,962
Decrease in long term liabilities	**267,535**	118,354
	731,131	714,316
INCREASE in working capital	**595,182**	1,097,521
WORKING CAPITAL—beginning of year	**3,725,236**	2,627,715
WORKING CAPITAL—end of year	**4,320,418**	3,725,236

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 1972

1. Basis of Consolidation

The accounts of all subsidiary companies have been consolidated. Assets, liabilities and earnings of the United States subsidiary company have been converted to Canadian Funds at rates approximating year-end rates of exchange, resulting in an unrealized exchange loss of $46,111 which has been charged to earnings for the year.

2. Classes of Business by Percentage of Sales:	1972	1971
Snow and ice control equipment	34%	30%
Hydraulic and traction elevators	22	23
Industrial gears and speed reducers	19	20
Miscellaneous (including truck parts and service, roll coverings, rubber linings, wet weather clothing, and miscellaneous steel fabrication)	25	27
	100%	100%

3. Accounts Receivable—Other

This amount represents the accounts receivable repurchased under an agreement dated February 24, 1966 with Dover Corporation relating to the sale of the elevator companies.

4. Inventories	1972	1971
These comprise:	$	$
Raw Materials	1,403,481	1,804,314
Work in Process	1,175,515	1,172,852
Finished Goods	1,866,699	1,733,165
	4,445,695	4,710,331

5. Bank Loans

$1,960,000 of the bank loans including term bank loans at August 31, 1972 have been secured by a floating charge debenture on the parent company's assets and by pledging inventories and trade accounts receivable of the divisions of the parent company and its Canadian subsidiary.

6. Long Term Liabilities

	Long Term	Portion due within one year
	$	$
Term bank loans—scheduled for repayment at varying amounts per year to December 31, 1977 ($1,300,000 secured: Note 5)	1,290,000	320,000
5% mortgage note due May 31, 1986 secured by fixed assets with net book value of $155,000	184,834	8,710
Equipment financing	26,396	31,312
Sundry notes and mortgages	67,814	21,990
	1,569,044	382,012

7. Common Shares

100,000 Common Shares are reserved for the conversion of the $1.10 Cumulative, Convertible Preferred Shares, Series A. Each such Preferred Share may be converted to 1 Common Share to December 1, 1972.

8. Dividend Restriction

The provisions of the $1.10 Cumulative, Convertible Preferred Shares, Series A prevent the payment of dividends on the Common Shares unless, immediately after giving effect to such action, the aggregate amount of dividends paid subsequent to August 31, 1962 on all shares of the company will not be more than the consolidated net earnings since that date. Before dividends on the Common Shares can be paid, therefore, additional consolidated net earnings (after payment of the cumulative dividends on the Preferred Shares) of $920,000 must be made.

9. Pension Plans

During the year the Company extended coverage of pension benefits to employees not previously covered at one of its divisions. The past service costs for this additional coverage are $143,000. The unfunded liability of all pension plans at August 31, 1972 was approximately $367,000. The Company intends to fund this amount over 18 years.

10. INFORMATION RE DIRECTORS AND OFFICERS

The company has seven directors whose aggregate remuneration as directors was $7,200, all of which was paid by the company. During the year the company had four officers including one who was a past officer. The aggregate remuneration paid to these 4 officers was $238,238 of which $99,980 was paid by Compro-Frink Corporation, a wholly owned subsidiary. One of these officers is also a director.

11. LONG TERM LEASES

Annual rentals on real property leases of more than three years duration are $136,000. Such leases expire at varying dates before 1993.

12. CONTINGENT LIABILITIES

Under the terms of an Agreement dated February 24, 1966 with Dover Corporation for the sale of the elevator companies, the company may be called upon to reimburse Dover for liabilities arising prior to February 28, 1966 which were not recorded as at that date. If these liabilities are deductible for income tax purposes by the elevator companies, then the reimbursement which the company may be called upon to make is reduced by 50%. Under the terms of this indemnity, the company is aware of unsettled litigation in the United States for amounts totalling $626,000. These actions have arisen between the date of sale and the present time. During the year claims amounting to $4,000 were settled. In the opinion of management the above actions will be settled for materially less than $626,000, and furthermore would be deductible for income tax purposes. It is impossible at this time to ascertain what, if any, payment will have to be made in respect to these actions.

COMBINED ENGINEERED PRODUCTS LIMITED

2242 Lakeshore Blvd. West,
Toronto 500, Ontario

CANADIAN DIVISIONS

FORT GARRY INDUSTRIES

Winnipeg, Manitoba; Regina and Saskatoon, Saskatchewan and Thunder Bay, Ontario

HAMILTON GEAR AND MACHINE COMPANY

Toronto, Ontario; Montreal, Quebec and Vancouver, B.C.

CANADIAN SUBSIDIARY

LAWRON INDUSTRIES LIMITED

EASTERN STEEL PRODUCTS

Preston, Ontario

FRINK OF CANADA

Preston, Ontario and Montreal, Quebec

LAWRON INDUSTRIES

Farnham, Quebec

U.S. SUBSIDIARY

COMPRO-FRINK CORPORATION

FRINK SNO-PLOWS

Clayton, New York

SOUTHEASTERN-WESTBROOK ELEVATOR

Atlanta, Georgia and Danville, Virginia

MONSOON COMPANY

Richford, Vermont

THE COMPRO COMPANIES

FORT GARRY INDUSTRIES
460 McPhillips Street — *D. L. Suche*
Winnipeg, Manitoba R2X 2G8 — *President*

Division is an established fabricator of truck bodies and trailers and a distributor of automotive parts.

Fort Garry provides a service unique in Canada at its Winnipeg plant—steel products can be manufactured and rubber-lined in a one-plant operation. Company markets are transportation, chemical, mining, aviation, logging and general industries.

The four locations at Winnipeg, Regina, Saskatoon and Thunder Bay occupy 80,000 square feet and employ 91 people.

HAMILTON GEAR AND MACHINE
950 Dupont Street — *D. K. Chapman*
Toronto 4, Ontario — *General Manager*

Manufactures a complete range of industrial cut gears; speed reducers and speed increasers; flexible shaft couplings; special custom products such as pinion stands, coiler drives and motorized units for special application.

Canada-wide markets include: the pulp and paper industry; mining industry; steel industry; environmental control industry, and all manufacturing and processing industries.

Toronto plant occupies 96,000 square feet, employs 176 people. Sales offices are in Montreal and Vancouver.

EASTERN STEEL PRODUCTS

777 Laurel Street
Preston, Ontario N3H 3Z1

P. H. Slaughter
General Manager

Fabricates custom steel plate work to customers' designs and specifications, including: transformer casings; bins; chutes; hoppers; conveyor frames; large diameter pipe; tanks; ovens; furnaces and heavy duct work of all types.

Also fabricates cryogenic storage vessels and transport equipment for liquid oxygen, nitrogen and argon.

Designs and manufactures rolling steel doors for warehouses, industrial plants and other structures, including automatic fire doors, large vertical lift doors and aircraft hangar doors of all types.

Occupies some 42,000 square feet. Employees number 64.

FRINK OF CANADA

777 Laurel Street
Preston, Ontario N3H 3Z1

G. G. Reitz
General Manager

Manufactures Canada's widest range of heavy-to-light duty snow and ice control equipment; also an important manufacturer of dump and sander truck bodies.

While freely exchanging ideas with its U.S. counterpart, Frink of Canada engages in its own intensive research and development of products for highway and street use. Frink of Canada also distributes in Quebec and Ontario a line of sanitation bodies for garbage disposal and street sweeping.

With 100,000 square feet of manufacturing premises at Preston, sales and service premises in Montreal, Frink employs 150 people. Distributor network gives coast-to-coast coverage.

LAWRON INDUSTRIES—INDUSTRIAL DIVISION
949 Main Street East
Farnham, Quebec

P. J. M. Morin
Vice President and
General Manager

A leading specialist in the technique of bonding rubber to metal rolls for the pulp and paper industry. Also covers rollers for the graphic arts, textile, steel and general industries and manufactures custom moulded rubber products for a variety of industries.

The division occupies 50,000 square feet, has 100 employees.

LAWRON INDUSTRIES—CLOTHING DIVISION
949 Main Street East
Farnham, Quebec

P. J. M. Morin
Vice President and
General Manager

Has developed and marketed protective clothing for both consumer and industrial use.

"Lawron" garments are purchased for use by people who earn their livings outdoors: hydro and construction crews, miners and fishermen, etc.

"MonSoon" is a line of consumer clothing—raincoats, jackets, fishing and sailing suits —for sports and business wear.

The products are distributed across Canada. This division occupies 40,000 square feet and has 61 employees.

MONSOON COMPANY
Towne & River Streets
Richford, Vermont 05476

E. J. Bannister
Sales Manager

Established in 1972 to manufacture and market "Lawron" and "MonSoon" products in the U.S.A. Initial distribution is planned for states east of the Mississippi.

SOUTHEASTERN-WESTBROOK ELEVATOR

441 Memorial Drive S.E. — *R. A. Davis*

Atlanta, Georgia 30312 — *President*

Designs and manufactures hydraulic and traction elevator systems for passenger and freight use.

Southeastern-Westbrook sells and installs its products throughout Georgia, South Carolina, Virginia and other Southern U.S. states. About 50% of its manufactured production is sold to distributors through the entire United States and Puerto Rico.

Atlanta plant occupies 100,000 square feet, has sales offices in Columbia, S.C., Danville, Va. and Athens, Ga., employs 218 people.

FRINK SNO-PLOWS

205 Webb Street — *S. P. Lockhart*

Clayton, New York 13624 — *President*

U.S.A.'s largest and best-known designer and manufacturer of snow and ice control equipment including: heavy duty displacement snow plows for super highways and airports; light and medium duty plows for municipal and private use; sand spreaders; rotary snow disposal units.

Clayton plant has over 50,000 square feet of manufacturing space, employs 166 people.

Fifty distributors, throughout continental U.S.A. and Alaska, give nation-wide coverage.